

<b>Item No.</b> 26.	<b>Classification:</b> Open	<b>Date:</b> 16 July 2019	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Policy and Resources Strategy 2020-21: Scene Setting Report	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Victoria Mills, Finance, Performance and Brexit	

## **FOREWORD - COUNCILLOR VICTORIA MILLS, CABINET MEMBER FOR FINANCE, PERFORMANCE AND BREXIT**

With a government spending review pending, a Fair Funding Review progressing slowly, and lack of clarity around what system of business rates retention will apply from April 2020, local government is facing a period of maximum uncertainty over funding for 2020-21 and future years. This is making the preparation of medium-term financial plans, including the potential budget for 2020-21, a highly complicated and speculative task.

Since 2010 Southwark has seen some of the biggest funding reductions across London and indeed the whole country. The scale of these cuts has been unprecedented in local government and whilst we have been flexible and robust in order to manage them, there is no doubt that they have impacted on our services, our residents and our ambition to improve the lives of all our residents.

During this time, we have focused on the delivery of our Council Plan and fairer future promises and we have developed fairer future budget principles to support the annual budget setting process. We have consistently promised value for money and committed to spending money as if it were from our own pocket.

All of this is consolidated through the policy and resources strategy, agreed regularly through cabinet, subject to overview and scrutiny and ultimately approved each year by council assembly. This report gives an update on the policy and resources strategy as we start preparing the budget for 2020-21 and indicative budgets for the following two years.

The financial remit and risk assessment shows that pressures continue to build on council services. Despite the challenges, this administration remains determined to keep our promises, to protect and modernise our services and to maintain excellent financial planning that is more than fit for the future.

Along with London Councils, we will continue to make the strongest case to the Government that they must use the Spending Review to:

- increase the overall level of funding for local government
- fully fund the cost implications of new burdens passed to councils over the last decade
- urgently address the pressures in social care, in children's services and across our schools
- address the unique pressures faced by London boroughs with regard to homelessness and No Recourse to Public Funds
- reward economic growth whilst ensuring its benefits are fairly shared across local government.

## RECOMMENDATIONS

That cabinet note that:

1. Government has stated its intention to announce and then publish a Spending Review to take place in 2019 to determine resources available for the period from 2020-21 and that there is now lack of clarity as to whether that review will extend beyond one year.
2. Progress on government's fair funding review and its potential impact on London councils remains unclear and in any event cannot be exemplified until the outcome of the spending review is complete.
3. Government has also stated its intention to implement a redesign of the Business Rates Retention System based on 75% retention with effect from April 2020, set alongside a reset of business rate baselines.
4. There remains no confirmation of key components of government's funding of councils and especially the future of the Better Care Fund, Improved Better Care Fund and New Homes Bonus.
5. The long awaited government green paper on funding Adult Social Care is still not published.
6. There remains no confirmation of changes to the funding of new burdens and other demand pressures including children's social care, dedicated schools grant (DSG) high needs costs and impacts of welfare reform.
7. Economic and financial impacts to the council of Brexit remain unclear and that any local budget pressure may need to be contained within the limited budget and reserve created as part of the 2019-20 policy and resourcing strategy and budget for 2019-20.
8. Government decision taking and policy decisions insofar as they impact on local government remain unclear, specifically in the context of the election of a new leader of the Conservative Party, to take over as Prime Minister in late July.
9. Funding uncertainties make any meaningful financial planning extremely challenging, with a range of potential scenarios suggesting a funding gap in 2020-21 of anywhere between £4m and £32m, with the range of potential outcomes increasing widely beyond 2020-21 (paragraph 53) and that, subject to the inherent uncertainties, the central forecast indicates a potential budget gap of £18.9m in 2020-21.
10. The central budget forecast is based on the following assumptions:
  - the impact of Spending Review and the Fair Funding Review will be neutral
  - the major grant funding sources, i.e. Public Health Grant, Better Care Fund, Improved Better Care Fund, Social Care Grants and New Homes Bonus will continue at 2019-20 levels
  - resetting the Business Rate Baseline will significantly impact those authorities that have experienced the greatest growth since inception of the existing BRR system in 2013-14; Southwark is forecast to lose up to £12.5m
  - subject to further analysis, net inflation and pay award pressures of £8.6m have been assumed
  - increased debt financing costs arising from the capital programme of £3m per annum
  - growth generated from increased homes and business rate yield of £4.7m

- retaining the contingency of £4m within the overall budget to support in year cost pressures
  - full utilisation of the business rate risk reserve over three years to mitigate the impact of business rate reset.
11. The strategic director of finance and governance with the support of other strategic directors and their terms will prepare a one year budget for 2020-21 based on cash-limiting departmental budgets at 2019-20, setting out the risks of this approach and how these risks will be managed.
  12. The strategic director of finance and governance will seek to prepare with other officers indicative savings options and commitments for 2021-22 and 2022-23 as part of the risk mitigation required to support this approach.
  13. Cabinet receive further reports in the autumn as further funding information becomes available and as budget plans for 2020-21 become available.
  14. Cabinet review and, if required, refresh the Fairer Future Budget Principles as part of the development of budget plans for 2020-21.
  15. In the event of clarity of government funding looking forward, we will need to establish medium term budget plans, reviewing any decisions previously taken.

## **BACKGROUND AND PURPOSE**

16. The main strategic funding decisions of central government as they relate to local government are normally made at each Spending Review; although these have been supplemented at subsequent annual Local Government Finance Settlements (e.g. with the introduction of the Improved Better Care Fund at Settlement 2016-17; additional flexibility on the Social Care Precept at Settlement 2017-18 and the increase in the referendum limit to 3% - before applying the Social Care Precept – at Settlement 2018-19).
17. Each year, the council updates a detailed policy and resources strategy covering a period that normally reflects the duration of the government's financial settlement. As part of the policy and resources strategy, and in line with requirements of the Local Government Finance Act, budgets are approved by council assembly for the next financial year as part of Council Tax setting. Where the settlement provides provisional funding commitments for more than one year, budgets may be agreed indicatively for a longer period.
18. For many years this process has formed the pivotal component of the council's financial planning process. This strategy, and the formal approval by council assembly, sits at the heart of the council's commitment to financial planning and efficiency. Most importantly, the strategy is bound to the policies of the council and not least by the commitments in the Fairer Future council plan.
19. Between 2011-12, the first year of the major austerity cuts, and 2019-20, the council has lost government funding in cash terms of more than £146m. According to government calculations, lost spending power has exceeded £85m during the same period. Neither of these figures allow for the real terms impact of price and demand pressures. In addition, the council has committed to priorities that have needed to be funded through a limited number of sources. During this period the council has also looked to keep council tax as low as possible, protecting the most vulnerable. Southwark remains the eighth lowest council tax rate in London.

20. In September 2015, the council adopted the Fairer Future Budget Principles that confirmed the framework within which the policy and resources strategy is formed. In September 2016 the cabinet approved the Fairer Future Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan, noting the relationship to the Council Plan and the new theme to be fit for the future. The FFMTFS was aligned with the four year local government finance settlement announced in February 2016. 2019-20 was the fourth and final year of the four year settlement.
21. The 2018-19 local government finance settlement confirmed that London Councils would pilot arrangement for the retention of 100% business rate growth through pooling. The pooling arrangements continued in 2019-20, albeit on a less generous 75% retention basis and with more risk passed to councils. Any additional business rates income received as part of the pooling arrangement will be one-off and set aside for investment in specific initiatives approved by cabinet.
22. A new Council Plan for the period 2018 to 2022 was agreed by cabinet in July 2018 and council assembly in November 2018. The Council Plan contains a range of promises and commitments which the council will work towards delivering over the coming years.
23. Council assembly of 21 February 2019 approved a balanced budget and council tax for 2019-20. This was a one year budget due to the uncertainty around future funding.
24. This report notes the current position with regard to the funding position for the council and initiates work to update the FFMTFS and budget principles.

#### **KEY ISSUES FOR CONSIDERATION**

25. This report sets out an initial financial outlook for 2020-21 to 2022-23.
26. The forecast is heavily caveated by the significant risks and uncertainties surrounding future funding arrangements, which make the preparation of medium-term financial plans highly complicated and speculative.
27. The Spending Review, initially intended to be published in the autumn, was planned to set out the overall quantum of central government funding to local government. The Fair Funding Review, planned to be implemented by April 2020, will determine the new funding baselines within the 75% business rates retention scheme.
28. It is increasingly likely that due to the ongoing political turbulence around Brexit and the election process for a new leader of the Conservative Party, to take over as Prime Minister in late July, that the Spending Review will now cover 2020-21 only and that the planned reforms of the funding formula and Business Rates Retention will be deferred; meaning councils will receive a one-year roll-over settlement in 2020-21. In any event it is highly unlikely that any meaningful funding information will be available before the Provisional Settlement is announced in December 2019. The local government sector, including London Councils, continues to lobby government to address the lack of certainty as soon as possible and to provide clarity over the major funding streams in advance of the provisional settlement.
29. This financial remit report is being compiled in a period of unprecedented financial uncertainty. The report considers the most likely financial position to be faced by the council over the next three years. The forecast however includes a range of assumptions which may prove to be incorrect; sensitivity testing around these assumptions indicates a significant range of outcomes, as illustrated in the 'fan' chart at paragraph 53.

30. At this stage the 'most-likely' budget scenario is based on a one-year Spending Review with the following assumptions:
- The roll-forward of existing baseline funding
  - The major grant funding streams, i.e. New Homes Bonus, Public Health Grants, Improved Better Care Fund and Social Care Grants will continue at 2019-20 levels
  - the Fair Funding Review and 75% Business Rate Retention (BRR) will be deferred (with the 75% London Business Rate pilot continuing for a further year)
  - The forecast assumes the council will likely lose £12.5m as a consequence of the Business Rate Baseline Reset from 2020-21, mitigated by the use of reserves set aside for this purpose. The hard reset of business rates baselines poses a significant financial risk for boroughs like Southwark that have experienced significant growth since 2013-14. Clarity on how the reset will be calculated is critical.
31. Whilst we expect some modest increases in council tax base (no council tax increases have been incorporated at this stage) and some additional growth in retained business rates year on year, the gap is largely driven by the proposed reset of the Business Rate Baseline and estimated inflationary pressures.
32. On the basis of the assumptions made at this time, it is estimated that net savings of £18.9m will be required in 2020-21. However the fan chart at paragraph 53 shows a range of potential scenarios which indicate that the actual gap could be between £4m and £32m.
33. The following assumptions will be continually reviewed and updated as firmer information becomes available:
- Baseline funding level
  - Locally generated resources
  - Inflationary pressures – pay and prices
  - Service and demand led budget pressures, in particular social care services, homelessness, Dedicated Schools Grant and high needs costs
  - Emerging growth and commitments.
34. In the event of clarity and greater certainty of government funding looking forward, we will need to develop our medium term budget plans, reviewing any decisions previously made. Resetting the MTFs and managing risk will require careful attention over the transition to the new local government finance system based on business rates retention, and a new funding formula.

### **Spending Review 2019**

35. The Spending Review is a key political and fiscal event. HM Treasury carries out spending reviews every three or four years to allocate funding across the government's priorities, set limits on spending and define the main outcomes that the public can expect the government to achieve with its resources.
36. The main strategic funding decisions of central government as they relate to local government are normally made at each Spending Review; although these have been supplemented at subsequent annual Local Government Finance Settlements (e.g. with the introduction of the Improved Better Care Fund at Settlement 2016-17; additional flexibility

on the Social Care Precept at Settlement 2017-18 and the increase in the referendum limit to 3% at Settlement 2018-19).

37. In a statement to the House of Commons in March 2019, the Chancellor said that he would use the Budget in the autumn to set out the total public spending envelope for years beyond 2020. Brexit will inevitably make this Spending Review harder than past years, and this could potentially limit the period covered by the spending plan:

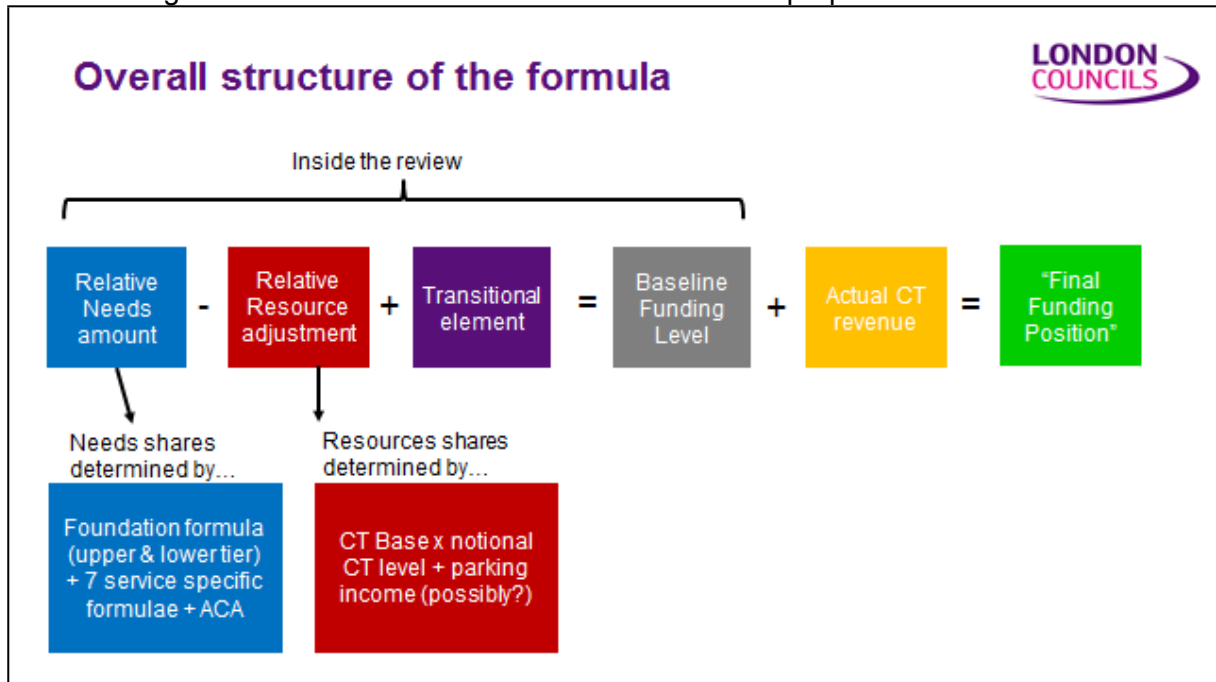
*“I can confirm today that, assuming a Brexit deal is agreed over the next few weeks and that the uncertainty that is hanging over our economy is lifted, I intend to launch a full three-year spending review before the summer recess, to be concluded alongside an autumn Budget. It will set departmental budgets beyond the NHS to reflect the public’s priorities between areas such as social care, local government, schools, police, defence and the environment”*

38. Latest information from the Treasury and MHCLG indicate that it is increasingly likely that the Spending Review will only cover one-year. With the outcome of the Spending Review to be announced in October/November, it is unlikely that any meaningful figures will be known until the provisional settlement in December. This is creating huge financial uncertainty with very little detail about almost all the major funding streams.

### **Fair Funding Review**

39. It remains the government’s stated intention to implement new funding baselines for all local authorities from April 2020 following its review of local needs and resources, the Fair Funding Review. The last time the ‘needs based assessment’ was updated was for the 2013-14 settlement.
40. The quantum of resources to be distributed through the Fair Funding Review is determined by the Spending Review. The timing and detail of the Spending Review will impact on the MHCLG’s ability to deliver the other reforms by April 2020, particularly the Fair Funding Review. The absence of any detailed figures or modelling of how those resources will be shared between local authorities through the new funding formula, make assessment of the impact impossible. However, transitional arrangements will be put in place to dampen the impact over a number of years.

41. The following illustration sets out the overall structure of the proposed new formula:



42. The MHCLG continues to undertake further policy development of the Fair Funding Review in collaboration with the LGA and technical working groups. A further consultation is anticipated in the autumn setting out more detail including implementation and transition arrangements. If the Review were to be implemented from April 2020, which is becoming increasingly unlikely, no meaningful exemplifications are expected before the provisional local government finance settlement in December 2019.

**Redesign of the Business Rate Retention System**

43. The third major change to local government funding is the implementation of 75% business rates retention (currently 50%).

44. Under 75% BRR, any differences between the income collected and the business rates baseline will be shared in the following proportions:

Southwark	48%
GLA	27%
Government	25%

45. As part of the proposed changes to the BRRS, the government has stated that a number of grants will be rolled-in under the new system. This will include Public Health Grant, Rural Services Grant and Transport for London grant.

46. The latest indications are that changes are likely to be deferred beyond April 2020.

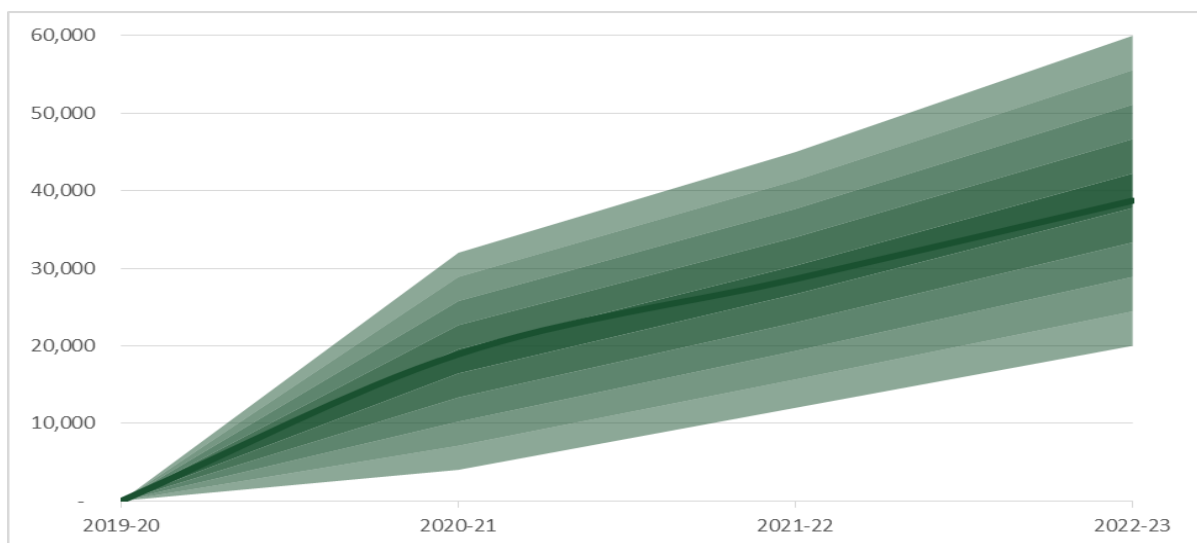
**Resetting Business Rates Baseline**

47. Under a full reset of business rates baselines, no growth is retained into the forthcoming reset period. This creates 'cliff-edges' at the end of each reset period.

48. Since 2013-14 and the introduction of the Business Rates Retention System, Southwark has, through development and regeneration, delivered significant growth in business rate income. Southwark has retained 30% of this growth (with 20% allocated to the GLA and 50% being paid to the government). This represents income of £25m per annum which has helped mitigate the impact of reductions in core government funding.
49. The government has always intended to reset business rates baselines in 2020 and have confirmed that they will apply a 'full reset' to the system in 2020-21. This means that all growth above business rates baselines will be removed from individual authorities and redistributed across all authorities on the basis of needs. This is likely to have a significant impact on those authorities, such as Southwark, that have generated significant growth under the existing system.
50. Under this scenario the council stands to lose the additional business rate income of £25m per annum delivered over the last seven years. However, at a reset, Business Rates Baselines are re-calculated for the forthcoming reset period for all local authorities. Dependent on the methodology determined by the government to resetting the Business Rate Baselines, some of this will come back through the redistribution of growth nationally.
51. Whilst the government has confirmed that a full reset of the business rates system will take place in 2020-21, how this interacts with other reforms to the business rates retention system and the outcome of the review into relative needs and resources, which will give all local authorities new funding allocations, has yet to be indicated. What happens at the transition to the reformed system will be '*consulted on later*'.
52. Beyond 2020-21 the consultation considers options to smooth out 'cliff-edges' to provide improved stability and certainty for authorities and allowing them to retain some of the benefit of local growth.

### UPDATED FINANCIAL REMIT 2020-21 – 2022-23

53. This financial remit is being compiled in a period of unprecedented funding uncertainty. The report considers the most likely financial scenario faced by the council over the next three years. The forecast includes a range of assumptions, which may prove to be incorrect; sensitivity testing around these assumptions indicates a range of variations in the financial forecast as indicated in the 'fan' chart below:





54. The solid line represents the 'most-likely' scenario which indicates a gap of £18.9m in 2020-21. However this is within a range of £4m (best-case) to £32m (worst-case).
55. The 'most-likely' central forecast is illustrated in the table below:

	2019-20 Budget £m	Indicative		
		2020-21 £m	2021-22 £m	2022-23 £m
Baseline funding level (BFL)	149.875	189.119	189.119	189.119
BRRS growth	25.000	2.500	5.000	7.500
Council tax	110.531	112.731	115.031	117.431
Collection fund surplus/(deficit)	5.018	(2.000)	0	0
Core grants	63.861	37.117	37.117	37.117
Contribution from Reserves	0	7.500	3.500	1.500
<b>Total resources</b>	<b>354.285</b>	<b>346.967</b>	<b>349.767</b>	<b>352.667</b>
Base budget brought forward	348.041	354.285	365.885	378.385
Inflationary pressures	9.653	11.600	12.500	13.000
Commitments and growth	16.206	0	0	0
Efficiencies, income and savings	-19.615	0	0	0
<b>Net spending</b>	<b>354.285</b>	<b>365.885</b>	<b>378.385</b>	<b>391.385</b>
<b>Gap (cumulative)</b>	<b>0</b>	<b>-18.918</b>	<b>-28.618</b>	<b>-38.718</b>

56. The Ministry of Housing, Communities and Local Government measures the impact of reducing government funding on local authority income via 'spending power'. This indicator captures the main streams of government funding to local authorities alongside council tax. In the event that all government funding rolls forward to 2020-21 at 2019-20 levels, the indicator will show an increase in 'spending power' due to the assumption that council tax will increase, despite the fact that grants will not have been uplifted for inflation.

## FUNDING FORECAST

57. The main funding sources for the council are:

- Baseline funding (comprising retained business rates and a top-up or tariff);
- Revenue funding from local taxation (council tax and retained business rate growth);
- Core grants;
- Fees and charges.

58. As government funding has reduced there has been increasing reliance on locally generated resources, i.e. business rate growth, council tax and other income from fees, charges and rental income.

## Baseline Funding Level (BFL)

59. Baseline funding represents the core funding distributed by the government. The Relative Needs and Resources formula (Fair Funding Review) and the Spending Review taken together will establish each authority's Baseline Funding Level (BFL). This is the core funding source for authorities which previously comprised Revenue Support Grant (RSG), retained business rates and business rate top up/tariff.

60. The forecast BFL is set out below:

	<b>2019-20 Budget £m</b>	<b>2020-21 Forecast £m</b>	<b>2021-22 Forecast £m</b>	<b>2022-23 Forecast £m</b>
Transitional baseline	149.875	162.375	162.375	162.375
Public Health Grant	-	26.744	26.744	26.744
<b>Baseline funding level</b>	<b>149.875</b>	<b>189.119</b>	<b>189.119</b>	<b>189.119</b>

61. For 2019-20 the council was funded via a settlement funding assessment of £149.875m (£156.285m less a tariff deduction of £6.492m). Whilst the Relative Needs and Resources formula will determine the BFL, it is assumed for this forecast that this will continue at the same level as in 2019-20, plus a share of the national business rate growth achieved since 2013.

62. The government has indicated that from 2020-21, as part of the move to 75% BRR, Public Health Funding would be incorporated into BFL.

### Revenue Funding from Local Taxation

63. Local government finance is increasingly dependent on locally generated resources, principally council tax and business rates but also income from fees and charges and income from investment property. Whilst this provides opportunities, it also exposes councils to significant risk in terms of delivering growth and volatility year-to-year, for example exposure to loss of income from business rates appeals.

64. The table below summarises anticipated funding raised through business rate retention and council tax.

<b>Local Resources</b>	<b>2019-20 Budget £m</b>	<b>2020-21 Forecast £m</b>	<b>2021-22 Forecast £m</b>	<b>2022-23 Forecast £m</b>
BRR growth 2014 to 2020	25.000	Reset from 2020-21		
BRR growth from 2020	0	2.500	5.000	7.500
Business Rate surplus/-deficit	1.158	-3.000	0	0
Council Tax baseline	104.446	110.531	112.731	115.031
Council Tax – growth in tax base	2.876	2.200	2.300	2.400
Council tax increase – 2.99% 19-20	3.209	-	-	-
ASC council tax precept - 0% 19-20	-	-	-	-
Council Tax Surplus/deficit	3.860	1.000	-	-
<b>Total revenue from local taxation</b>	<b>140.549</b>	<b>113.731</b>	<b>120.031</b>	<b>124.931</b>

### Business Rate Retention

65. In addition to the retained business rate assumptions given by the government, authorities are able to generate additional resources through growth in the rateable value of business premises, above the reset baseline. Assuming 75% BRR arrangements are implemented

from April 2020, the council will retain 48% of business rate growth generated until the next reset. Some modest growth has been included in the forecast based on anticipated developments, however it should be noted that changes to the valuation office list and successful appeals can create significant risk and volatility to the forecast.

66. The 2018-19 outturn confirmed a deficit on the business rates collection fund. The deficit was largely due to prior year adjustment to the Valuation Office Agency (VOA) list as a consequence of successful appeals together with the reclassification of property as empty. The council's share of the deficit will be offset against 2020-21 estimated business rate income. 2019-20 collection fund monitoring indicates that income is in line with forecast. The position will continue to be monitored closely and estimates of retained business rates and collection fund balance will be refreshed as necessary.

#### Council Tax

67. Council tax income for 2019-20 was calculated at £110.531m including a council tax increase of 2.99%. Council tax base has grown by 18% since 2016-17 due to an increase in the number of homes, reduction in the cost of local council tax support and changes to the council tax on long-term empty properties. A 2% per annum growth in taxbase has been assumed in the forecast.
68. In 2019-20, an early estimate of a £1m council tax surplus is anticipated. Council tax collection fund performance will continue to be closely monitored and estimates refreshed as needed.
69. The current indicative budget assumes no increase in council tax for 2020-21 or future years, although this assumption will need careful scrutiny in the context of the serious strains on council services. Government assessments of individual authorities spending power assumes that councils will increase council tax each year in line with the referendum principles published as part of the local government finance settlement.
70. We await MHCLG's clarification of the referendum limits for 2020-21 but expect that these will be unchanged from 2019-20, i.e. a 3% limit. Should the council determine to raise Southwark's element of the council tax, a 2.99% increase will yield circa £3.3m in 2020-21 and would be subsequently included in the base for all future years.
71. It should also be noted that any transitional funding arrangements proposed by the government as part of funding reforms are likely to take into account changes in 'spending power'. This means any transitional support would assume council tax increases in line with council tax referendum principles.

#### Adult Social Care Precept

72. Since 2016-17 councils responsible for social care have been given the power to raise a social care precept. A 2% ASC precept was applied in 2016-17 and 3% in 2017-18 and 2018-19 in order to continue to protect services for our most vulnerable residents. The additional funds bring the total value of the Adult Social Care Precept to £7.3m per annum.
73. The long awaited government green paper on the future funding of adult social care services has still not been published and it is unclear whether the government's solution to the longer term funding of social care will include additional ASC precepts.
74. MHCLG will need to clarify whether the Social Care Precept is extended for another year or, in advance of a Spending Review and/or the Green Paper, whether it will be removed. Should the precept continue for another year at 2%, this would generate £2.2m per annum.

## Core Grants

75. In addition to baseline funding and revenue funding from local taxation, the council also receives a number of grants which the government includes in their presentation of local authority core Spending Power.

76. The forecast core grants are set out below:

	<b>2019-20 Budget £m</b>	<b>2020-21 Forecast £m</b>	<b>2020-21 Forecast £m</b>	<b>2020-21 Forecast £m</b>
Business Rates Section 31 Grant	4.281	4.281	4.281	4.281
New Homes Bonus	12.830	12.830	12.830	12.830
Improved Better Care Fund	15.752	15.752	15.752	15.752
Additional Social Care Grant	4.254	4.254	4.254	4.254
<b>Core grant funding</b>	<b>37.117</b>	<b>37.117</b>	<b>37.117</b>	<b>37.117</b>

77. Grants within Core Spending Power:

- Section 31 Business Rates compensation grant. The statutory arrangements for business rates retention means that the government must compensate councils for the loss in rate (under Section 31) arising from Government Budget or policy decisions, for example decreases in yield from transitional relief and other discounts. Estimates have been included based on latest returns and any future announcements should be neutral. This grant would likely end at any business rate reset and be subsumed within updated business rates baselines.
- New Homes Bonus. New Homes Bonus (NHB) is intended to incentivise housing growth and rewards housing delivery. Nationally £918m was allocated to local authorities in 2019-20 of which Southwark received £12.830m, the third highest reward in the country. Certainty on the future of this funding stream is particularly important for the council. No change to NHB has at this stage been signalled for 2020-21.
- Improved Better Care Fund (IBCF). The improved Better Care Fund is made up of two parts, that which was initially included as part of the 2016-17 settlement and the supplementary funding announced as part of the spring 2017 budget. The utilisation of the supplementary grant has been agreed with the Health and Well Being Board for adult social care funding pressures. It is assumed that in the absence of a Spending Review and/or a social care green paper, this funding will continue at the same level as 2019-20.
- Additional Social Care Grant. As part of the autumn 2018 Budget the Chancellor announced additional grant funding for Social Care and Winter pressures for 2018-19 and 2019-20. This funding has been included within the government's assessment of core spending power and has therefore been assumed to continue at its 2019-20 level.

78. Grants outside of Core Spending Power:

- Public Health Grant. Alongside the finance settlement, the government publishes the Public Health allocations. Southwark's allocation for 2019-20 was £26.744m. Public Health grant has reduced year on year since 2015-16. The government has announced that from 2020-21, as part of the move to 75% BRR, Public Health Funding will be incorporated into baseline funding from 2020-21. It has been assumed that this will

continue at the same amount as in 2019-20.

- Better Care Funding. The grant is distributed as part of the NHS funding allocation and its use agreed with the Health and Well Being Board. The continuation of the funding was due to be considered as part of the Spending Review. It has been assumed that this will continue at the same amount as in 2019-20.
- Homelessness Reduction Grant. This grant was provided to meet the new burdens costs associated with the additional duties contained within the Homelessness Reduction Act over the period 2017-18 to 2019-20. There is significant risk that this grant will not continue beyond March 2020.

### **London Business Rates Pooling Pilot**

79. The council joined the London Business Rate Pool pilot arrangements for financial years 2018-19 and 2019-20.
80. The financial benefit of the pooling arrangement meant that 100% of business rate growth in 2018-19 and 75% of growth in 2019-20 will be retained within London. This included facilitating collective investment through a 'Strategic Investment Pot' designed to promote economic growth and lever additional investment funding from other sources. The council also receives a share of the pool benefits (one-off resources in 2018-19 and 2019-20) for investment in initiatives as set out in the February 2019 budget report.
81. No decisions have been made on the continuation of the pool beyond 2019-20.

### **Fees and charges**

82. The council will seek to generate additional income by reviewing discretionary fees and charges and opportunities to increase other commercial income. In accordance with the council's agreed policy, fees and charges are reviewed annually to increase them to a level that is at least equal to the most appropriate London average, except where this either conflicts with council policy, or would lead to adverse revenue implications or would impact adversely on vulnerable clients. Updated fees and charges will be presented for cabinet approval in January 2020.

### **Cost pressures 2020-21**

#### **Inflation and Pay Costs**

83. Inflation has been rising and presents a considerable risk as we move into 2020-21 budget setting. The Office of Budget Responsibility forecast that consumer price index (CPI) inflation will be brought back to around 2% in 2019. The pay settlement for 2020-21 has yet to be agreed, an assumption of a 2.5% increase to the total paybill has been included in each year from 2020-21.
84. Therefore, this budget recognises £8.6m of inflationary increases linked to both pay increases and contractual inflation in 2020-21.
85. This ongoing move to self-sufficient local government demonstrates the importance of Southwark's capital investment programme within the borough, either as the lead authority or with partners. Growth is the key to ensuring sustainable budget sources as we move closer to reliance wholly on local taxation, either through business rates or council tax, as well as increasing opportunities across the borough for quality of life, jobs and environmental improvements.

86. Capital investment is either funded immediately from available capital resources, (e.g. capital receipts or capital grants and contributions) or financed from borrowing (internal or external borrowing). The cost of servicing that debt is charged to the revenue budget over periods commensurate with the period that the investment provides benefits. The increase in debt financing costs included within budget pressures is £3m in 2020-21.
87. At this stage no other budget pressures/commitments have been included in the forecast. Demand pressures arising from education services, social care, no recourse and temporary accommodation together with any new commitments will therefore need to be considered as part of the budget setting process.

### **2018-19 Outturn**

88. The outturn reports for capital and revenue monitoring were presented to Cabinet in June. The 2018-19 statement of accounts is currently subject to audit and is due to be considered for approval by the audit, governance and standards committee in July.
89. The outturn report presented a balanced budget after movements to/from reserves. The underlying cost pressures within this balanced budget include a £4m adverse variance within Housing and Modernisation relating to Temporary Accommodation and No Recourse to Public Funds. The contingency was applied to offset these pressures in 2018-19 with additional resources allocated in setting the 2019-20 budget.
90. In November 2018 the LGA conducted a survey of councils to gather information on their experience of the Homelessness Reduction Act (HRA) since its implementation in April 2018. The introduction of the Act has seen an increase in the number of presentations from people who weren't previously covered by statutory provisions, that is, current or recent rough sleepers, and people without local connections. However, presentations from people in priority need have also increased. For most councils, the number of people and the length of stay in temporary and emergency accommodation has also increased as a result of the Act.
91. The Dedicated Schools Grant spend was £7.4m more than the 2018-19 grant allocation, leaving a deficit on the DSG reserve of £11.5m at the year end. Whilst it is expected that this deficit will be repaid, ongoing pressures within the DSG High Needs Block and specifically the significant increase demand and complexity of Special Education Needs and Disability (SEND) services, together with challenges associated in the supply of placements, make this extremely challenging, particularly in the short-term. Many local authorities are in the same position and there continues to be strong lobbying of government on the inadequacy of funding.
92. The council was able to increase financial risk reserves in closing the 2018-19 accounts in order to support the financial strategy, including an increase in the business rates resilience reserve to £12.5m to help manage risk under the business rate retention arrangements, in particular the business rates reset in 2020-21.

### **Risks to delivery**

93. The policy and resources strategy covers a wide range of services and plans of the council. It is natural therefore that circumstances and policies can change and develop over time, and the plan has to be based on broad forecasts for later years where decisions have yet to be taken.

94. The council's current and future financial position is subject to a number of risk management processes, and the financial risks affecting the council are captured in the council's risk assessment including:
- Changes in local government funding may compromise future service delivery
  - Changes to the business rate retention scheme and any shortfall in business rate recovery will directly impact the council
  - The substantial commitment within the 10 year capital programme is not matched by resources
  - Due to unprecedented financial pressures, the council's financial balances falls below an acceptable level affecting the council's flexibility
  - Future budgets for the council are not sufficiently robust - especially in light of the current economic climate and future funding changes in government - resulting in restricted council resource and risk of service failure, increased external scrutiny and reputational damage.
95. All risks are subject to regular review. In additional, financial management and monitoring continues to be undertaken on a risk-based approach, with focus on those budgets which are subject to fluctuating demand.
96. It is recognised that the integrated efficiency plan carries a number of significant risks. Delivery of the annual programme of efficiencies, savings and income targets will be difficult, but failure to implement these will inevitably require the council to consider even more difficult decisions.

### **Macro-economic risks**

97. The continued hiatus around Brexit and economic impacts post-Brexit.

### **Demographic pressures**

98. The council faces demographic growth pressures and changes in the population profiles which results in both additional numbers of referrals and increased levels of need.
99. Temporary Accommodation and No Recourse to Public Funds are demand driven and have become an increasing pressure on council resources. Caseload remains high with a current upward demand trend.
100. Public Health pressures particularly in sexual health services
101. High-needs cost pressures with rising costs in placements and related transport, increasing demand in services for young people over 16 years old
102. The level of balances remains subject to the scrutiny of the section 151 officer who must ensure that any one off contributions to the budget are appropriate and affordable.

### **Reserves**

103. The council retains a level of earmarked reserves and these are reported each year within the annual statement of accounts. These reserves are maintained to fund:
- invest to save opportunities, which form part of the modernisation agenda and are expected to deliver future ongoing revenue savings

- investment in regeneration and development where spend may be subject to unpredictable market and other factors.
- exceptional items or pressures which are difficult to predict and which are not included in revenue budgets or within the capital programme.

104. The following table summarises earmarked reserves as at 31 March 2019:

<b>Summary of earmarked reserves</b>	Balance at 31 March 2019 £000
Corporate projects and priorities	9,137
Service reviews and improvements	15,375
Capital programme and other capital investment	23,418
Strategic financing risks (including Business rate retention risk)	36,450
Technical liabilities and smoothing reserves	27,940
<b>Total</b>	<b>112,320</b>
DSG Reserve	-11,515
<b>Total</b>	<b>100,805</b>

105. The MTFS assumes use of the Business Rate Resilience Reserve (£12.5m), in full over the MTFS period.

### Next Steps

106. The main governance steps to establishing the 2020-21 general fund revenue budget are outlined in the table below:

<b>Date</b>	<b>Meeting</b>	<b>Report</b>	<b>Purpose</b>
September 2019	Cabinet	P&R strategy	Update the financial remit and confirm the size of the budget challenges facing the council in the period to 2019-20
September to November 2019	Budget Challenge arrangements		
December 2019	<b>Provisional local government finance settlement</b>		
December 2019	Cabinet	P&R strategy	Provide options for meeting the budget challenges over the next three financial years
December 2019	Cabinet	Council Tax base	Confirm the council tax base to apply for 2020-21
January 2020	Cabinet	P&R strategy	Select proposed solutions for meeting the budget challenge
January 2020	Overview and Scrutiny	P&R strategy	Comment on and make recommendations in respect of the cabinet's proposed 2020-21 budget and indicative budgets for future years
February 2020	Cabinet	P&R strategy	Recommend to Council Assembly balanced budget for 2020-21
February 2020	Council Assembly	P&R strategy	Council Tax setting and approve a balanced budget for 2020-21 and agree indicative budgets for 2021-22 and 2022-23



## **Community impact statement**

107. The council works in accordance with the single public sector equality duty contained within section 149 of the Equality Act 2010. This means the council must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, and advance equality of opportunity and foster good relations between different groups.
108. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2018-19 and for previous years, each department will undertake equality analysis/screening on its budget proposals ahead of the final decisions being taken. Where screenings identify potential impacts, more detailed analysis is being carried out.
109. Undertaking equality analysis helps the council to understand the potential effects that the budget proposals may have on different groups. The analysis also considers if there may be any unintended consequences and how any of these issues can be mitigated. Analysis is also undertaken to consider any crosscutting and organisation-wide impacts.
110. For many services the budget proposals will include efficiencies which have staffing implications. As specific proposals are brought forward, and at each stage of implementation thereafter, the different impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.
111. Equality analysis will continue through the cycle of planning and implementation of these budget proposals. In line with our Public Sector Equality Duty, any changes to services arising from these proposals will be implemented in such a way to not impact disproportionately on any specific section or group in our community. Where necessary, consultation will be undertaken alongside mitigating actions where necessary. In line with the process across the council, information on the equality analysis will be shared with the relevant cabinet members so it can be considered when decisions are taken. The equality analyses will be collated across the council to look for any cumulative impacts.
112. To date no cumulative impacts have been identified through the analysis. However, this process will be completed in time to be reported on in the final budget report in January 2020.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Director of Law and Democracy**

113. The constitution determines that cabinet consider decisions regarding the strategic aspects of the regulation and control of the council's finances. The council has a legal obligation to set a balanced budget on an annual basis as prescribed in the Local Government and Finance Act 1992 and associated Regulations. The issues contained in this report will assist in the future discharge of that obligation.
114. The council is required under section 149 of the Equality Act 2010 to have due regard to the need to:
  - Eliminate unlawful discrimination harassment and victimisation
  - Advance equality of opportunity between people who share protected characteristics and those who do not

- Foster good relations between people who share protected characteristics and those who do not.

115. Decision makers must understand the effect of policies, practices and decisions on people with protected characteristics.

116. Equality analysis is the mechanism by which the council considers these effects. The report sets out how it is proposed equality analysis will be undertaken in relation to the budget proposals.

117. It is essential that cabinet give due regard to the council's duty under the Equality Act 2010 and the implications for protected groups in the context of that duty in relation to this decision and future decisions on the budget proposals.

### REASONS FOR URGENCY

118. Each year, the council updates a detailed policy and resources strategy covering, as a minimum, the following financial year. This report initiates the 2020-21 to 2022-23 budget planning process and the detailed work on budget proposals. Members and officers will undertake this work over the coming months in order to meet the timetable to prepare a budget proposal for submission to council assembly in February 2020.

### REASONS FOR LATENESS

119. We continue to await decisions from the government on the financial framework and funding arrangements for 2020-21 and future financial years. The lack of clarity makes the preparation of financial plans a highly speculative task. In the event of any further information becoming available before Cabinet on 16 July, a further briefing note will be prepared.

### BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Policy and resources strategy 2019-20 – revenue budget	160 Tooley Street London SE1 2QH	Rob Woollatt 020 7525 0614
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=132&amp;MId=6096&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=132&amp;MId=6096&amp;Ver=4</a>		

### APPENDICES

No:	Title
None	

## AUDIT TRAIL

<b>Cabinet member</b>	Councillor Victoria Mills, Finance, Performance and Brexit	
<b>Lead officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report author</b>	Rob Woollatt, Interim Departmental Finance Manager	
<b>Version</b>	Final	
<b>Dated</b>	11 July 2019	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	N/a	N/a
Cabinet Member	Yes	Yes
<b>Date final report sent to Constitutional Team</b>		11 July 2019